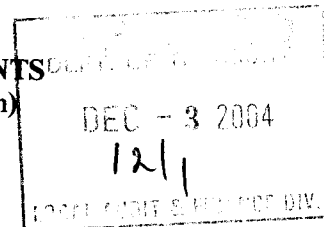


City of Hart
64-2010
REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

Year ended June 30, 2004



Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

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DEC - 3 2004

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name City of Hart		LOCAL AUDIT & FINANCE DIV. County Oceana	
Audit Date 6/30/04		Opinion Date 10/4/04		Date Accountant Report Submitted to State:	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☒ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Brickley DeLong, PLC			
Street Address 500 Terrace Plaza		City Muskegon	State MI
Accountant Signature		ZIP 49440	Date

Mayor Robert Steen

Mayor Pro Tem Clancy Aerts

City Council Brett Beachum
Susan Krajewski
Ron LaPorte
Betty Root
Allen Seyfred

City Manager Stanley Rickard

Clerk/Treasurer Louise Stevens

City of Hart

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City of Hart

Management's Discussion and Analysis

June 30, 2004

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. This report consists of a series of financial statements for the City of Hart as of June 30, 2004. The City of Hart's basic financial statements are comprised of three components:

1. Governmental-wide financial statements
2. Fund financial statements
3. Notes to the financial statements

The Statement of Net Assets and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the City operations in more detail than the government-wide financial statements.

This report also contains other required supplementary information in addition to the basic financial statements themselves.

FINANCIAL HIGHLIGHTS

At the close of the fiscal year the City of Hart had total assets of \$25,963,429 and total liabilities of \$8,964,697 leaving net assets of \$16,998,732. Of this amount, \$6,551,817 (unrestricted net assets) may be used to meet the ongoing obligations to citizens and creditors. The City has heavy infrastructure investments in hydro electric, water, sewer, and wastewater treatment facilities evidenced by business-type total net assets of \$15,833,222, over 93% of total net assets.

Business-type functions had operating income of only \$58,151 comprised of \$462,506 hydro income and a \$404,355 loss in water/sewer operations. All charges for utility services were increased in fiscal 2004 which contributed to the overall net operating income.

The City ended the year with deficits in two non-major funds. The local street fund and the street improvements fund had deficits of \$9,987 and \$52,484 respectively. These deficits will be eliminated by future operations and operating transfers.

OVERVIEW OF THE FINANCIAL STATEMENTS

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the City's finances. The statements are similar to those of a private sector business.

The Statement of Net Assets presents information of all the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the City's net assets changed during the fiscal year. All changes in net assets are reported when the event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenditures are reported in this statement for some items that will only result in cash flows in the future fiscal periods.

Both of the government-wide statements mentioned above distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are designed to recover all or a significant part of their costs through user fees and charges for services (business type activities). The government activities of the City include general government, public safety, public works, community and economic development, and cultural and recreational activities. The business-type activities of the City include the hydro electric, water and sewer services.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories; governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. Unlike the government-wide financial statements, government fund financial statements focus on current sources, uses, and balances of spendable resources available at the end of the fiscal year. This information may be useful in evaluating a governmental entity's short-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between the two.

The City maintains twelve individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and Building Authority Fund, both of which are considered to be major funds. Data from the other funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

Proprietary Funds

The City of Hart has two enterprise funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its 1) water and sewer, and 2) hydro electric operations. Enterprise funds provide the same type of information as the government-wide financial statements, only in more detail.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected on the government-wide financial statements because the resources from those funds are not available to support the City's programs. The accounting method used for fiduciary funds is much like that used for the proprietary funds.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The reader is encouraged to include the reading of this section in any attempt to analyze and understand these statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's budgetary information as it relates to the actual expenditures for the General Fund.

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the required supplementary information on budgetary information.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

City of Hart's Net assets

Recall that the statement of net assets provides the perspective of the City as a whole. The following table provides a summary of the City's net assets. As of June 30, 2004 the City's net assets from governmental activities totaled \$1,165,510 and \$15,833,222 from business-type activities, a government-wide net asset total of \$16,998,732. Since this is the first year the City has prepared financial statements following GASB Statement No. 34, comparisons to fiscal year 2003 are not available.

In examining composition of assets, the reader should note that the amount of governmental activities invested in capital assets (i.e., streets, buildings, furniture and equipment, etc.) are used to provide services to the residents, and are not available to pay salaries, operational expenses or fund capital projects.

	Governmental Activities	Business-type Activities	Total
Current and other assets	\$1,608,429	\$ 7,526,609	\$ 9,135,038
Capital assets	<u>1,010,615</u>	<u>15,817,776</u>	<u>16,828,391</u>
Total assets	2,619,044	23,344,385	25,963,429
Long-term liabilities outstanding	1,242,402	7,213,654	8,456,056
Other liabilities	<u>211,132</u>	<u>297,509</u>	<u>508,641</u>
Total liabilities	<u>1,453,534</u>	<u>7,511,163</u>	<u>8,964,697</u>
Net assets:			
Invested in capital assets, net of related debt	652,102	9,186,095	9,838,197
Restricted	155,387	453,331	608,718
Unrestricted	<u>358,021</u>	<u>6,193,796</u>	<u>6,551,817</u>
Total net assets	<u>\$1,165,510</u>	<u>\$15,833,222</u>	<u>\$16,998,732</u>

City of Hart's Changes in Net Assets

The results of this year's operations for the City as a whole are reported in the statement of activities, which shows the changes in net assets for fiscal year 2004. Since this is the first year the City has prepared financial statements following GASB Statement No. 34, revenue and expense comparison to fiscal year 2003 is not available.

Management's Discussion and Analysis

	Governmental Activities	Business-type Activities	Total
Revenues:			
Program revenues:			
Charges for services	\$ 319,951	\$ 3,801,099	\$ 4,121,050
Operating grants and contributions	198,839	-	198,839
Capital grants and contributions	315,600	330,615	646,215
General revenues:			
Property taxes	692,500	-	692,500
Grants and contributions not restricted to specific programs	201,042	-	201,042
Other	(31,409)	430,462	399,053
Total revenues	1,696,523	4,562,176	6,258,699
Expenses:			
General government	\$ 237,573	\$ -	\$ 237,573
Public safety	440,369	-	440,369
Public works	487,727	-	487,727
Community and economic development	3,676	-	3,676
Culture and recreation	86,936	-	86,936
Interest on long-term debt	52,475	-	52,475
Hydro	-	2,291,723	2,291,723
Water and sewer	-	1,789,139	1,789,139
Total expenses	1,308,756	4,080,862	5,389,618
Increase in net assets before transfers	387,767	481,314	869,081
Transfers	(56,288)	56,288	-
Increase in net assets	331,479	537,602	869,081
Net assets - July 1, 2003	834,031	15,295,620	16,129,651
Net assets - June 30, 2004	\$1,165,510	\$15,833,222	\$16,998,732

At year-end, on June 30, 2004, net assets increased by \$331,479 in governmental activities and \$537,602 in business-type activities, an increase of \$869,081 government-wide.

Governmental Activities

Several events and projects contributed to the \$331,479 net asset increase in governmental activities. The capitalization of the Creeks-Enterprise Development and recognition of the special assessments associated with the project was the principal contributor to the increase in the net assets in the government wide financial statements.

Business-type Activities

Operating revenues in Hydro Electric and Water/Sewer totaled \$3,806,750 comprised of \$2,714,118 in Hydro Electric and \$1,092,632 in Water/Sewer. Subtracting operating expenses, Hydro Electric experienced operating income of \$462,506 and Water/Sewer posted an operating loss of \$404,355 for a net operating income for business-type activities of \$58,151.

In fiscal 2004, the Hydro Electric fund forgave a loan to Water/Sewer in the amount of \$651,240 which primarily contributed to a decrease in net assets of \$220,432 in Hydro Electric.

Non-operating revenues in the Water/Sewer fund reversed the \$404,355 operating loss. The significant non-operating revenues were as follows: special assessments (mainly Creeks-Enterprise), \$330,615; investment income including interest earned from special assessments within the agricultural renaissance zone, \$195,392; sale of property near 88th & Polk Road to Consumers Energy, \$221,006; and transfers in (principally from Hydro Electric), \$707,528. Therefore, Water/Sewer net assets increased by \$758,034 in fiscal 2004.

Net assets for business-type activities increased by \$537,602 in the year ending June 30, 2004.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As stated earlier in this discussion and analysis, the City of Hart uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances in spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balances may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the 2004 fiscal year, the governmental funds reported a combined fund balance of \$264,772. Of this number, \$94,112 represents the unreserved fund balance, comprised of \$99,019 in the General Fund, \$2,125 in the Building Authority Fund, and net deficit of \$7,032 in other governmental funds. It is necessary to further distinguish between unreserved and reserved fund balance. The unreserved balance represents what is available for spending at the City's discretion. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed to advances (\$15,273), debt service (\$21,858), and capital projects (\$133,529).

The General Fund is the chief operating fund of the City. The General Fund pays for administration, public safety, general public works, assessments, elections, legal, recreation, garbage collection, boards and commissions, and other minor functions. The General Fund ended the year with a fund balance of \$114,292, a \$25,708 increase from fiscal 2003. The unreserved General Fund balance was \$99,019. The health of the General Fund may be measured by the ratio of unreserved General Fund balance to annual General Fund expenditures. Unreserved fund balance represents 10% of the general fund expenditures.

Due in part to increased tax revenues, general fund revenues exceeded expenses by \$131,532 before transfers. After transfers, the net change in fund balance was a modest increase of \$25,708. Combined with a June 30, 2003 balance of \$88,584, the general fund had a June 30, 2004 balance of \$114,292 or 12% of total expenditures of \$988,030.

Primarily due to capital outlay in fiscal year 2004 for the new Hart Area Public Library in the amount of \$911,059 and capital outlay for the Creeks-Enterprise Development, the net change in fund balance for all governmental funds decreased by \$682,452.

Proprietary funds

The City's proprietary funds provide the same type of information found in the governmental financial statement, but in more detail. A significant event in fiscal year 2004 was the 2003 electric, water and sewer rate study conducted by Utility Financial Solutions. This study concluded that operating losses were occurring in the water/sewer fund and rate adjustments were needed to correct the imbalance. The City adopted new rates in late 2003 and additional rate increases are programmed for future years.

Another important event in year-end June 30, 2004 was a loan forgiven by the Hydro Fund to the Water/Sewer Fund in the amount of \$651,240. This transaction allowed the Water/Sewer Fund to maintain a positive cash position but caused a commensurate reduction in Hydro Fund net assets.

Sale of property to Consumers Energy near 88th Avenue and Polk Road provided short-term relief to the Water/Sewer Fund in the amount of \$221,006. The land was used for an electric substation.

Budget Analysis – General Fund

At various times throughout any budget year, budget amendments are needed to reflect changing financial conditions and changes to financial policy. The year ending June 30, 2004 was typical.

Local intergovernmental revenues were increased to reflect anticipated lease payments from the Hart Area Public Library and a proposed contribution from the Tax Increment Financing Authority.

On the expenditure side, capital outlay budget was increased due to additional improvements made in the TIFA district.

Finally, budgeted transfers were increased due to anticipated debt service requirements.

Capital Asset Administration

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2004 totaled \$16,998,732 (net of accumulated depreciation). Investment in capital assets includes land and land improvements, buildings and improvements, infrastructure (including utility systems), furniture and equipment.

Major capital asset events during the current fiscal year included construction of the Hart Area Public Library building, and the Creeks and Enterprise Drive streets development which included water and sewer infrastructure.

Debt Administration

As of June 30, 2004 the City had outstanding long-term liabilities of \$8,539,556 consisting of general obligation bonds, Michigan Transportation Fund bonds, special assessment bonds, installment purchase contracts, compensated absences, revenue bonds, and contractual obligations. These liabilities lie predominately in the enterprise funds in the amount of \$7,213,654, approximately 84% of the total. The largest source of debt consists of a contractual obligation in the amount of \$4,335,000 to Oceana County for the 2002 wastewater treatment plant expansion.

On the governmental side of the City, the largest source of debt is outstanding Building Authority Bonds in the amount of \$885,000 for the new library.

Annual principal and interest payments for fiscal year 2005 are \$962,900; in fiscal 2006, \$928,800; and in fiscal 2007, \$914,800.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Hart 2004-05 budget calls for a reduction in expenditures in response to State of Michigan threats to reduce shared revenue. State legislation enacted in September, 2004 sustained current levels of State-shared revenue of approximately \$200,000 but the future is uncertain. Property tax revenues increased to \$692,500 in year-end June 30, 2004, up approximately \$107,000 from fiscal year 2003.

The street improvement Millage rate of approximately 2 mills expires for fiscal year 2005. Unless renewed, the City will lose about approximately \$71,000 in revenues for street rehabilitation.

Garbage fees increased in fiscal 2005 by \$2 to \$10 per month adding about \$16,000 in general fund revenue. Notwithstanding, fees collected (\$93,000) do not cover the cost of garbage service (\$134,000).

Based on a comprehensive study, utility rates were increased in December 2003 to correct an ongoing imbalance between revenues and expenditures particularly in the water/sewer fund. Although additional rate increases are programmed, it will take several more years to correct the imbalance in the water/sewer fund.

Engineering studies are underway in hydro and water/sewer area. These studies will draw conclusions about the need for infrastructure improvements and make recommendations targeting voltage upgrades in hydro electric; and lift station, water main and sewer line, and elevated tank improvements in water/sewer. The financial impact of these contemplated improvements is unknown at this time.

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, residents, voters, customers and investors with a general overview of The City's finances as well as to depict the City's accountability for the money it receives and spends. If you have questions about this report or need additional information, we welcome you to contact City Hall at 231-873-2488. Hart City Hall, located at 407 State Street, Hart, MI 49420. Hart City Hall is open Monday through Friday from 8:00 AM to 5:00 PM excluding most national holidays.

BRICKLEY DeLONG
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

October 4, 2004

City Council
City of Hart
Hart, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Hart as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Hart's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Hart as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note A, the City has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, as of June 30, 2004.

The management's discussion and analysis and budgetary comparison information on pages i through vii and 34, are not a required part of the basic financial statement but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

BRICKLEY DeLONG

City Council
October 4, 2004
Page 2

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hart's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Brickley DeLong, PLLC

City of Hart
STATEMENT OF NET ASSETS
June 30, 2004

ASSETS

	Governmental activities	Business-type activities	Total	Component Unit
				Tax Increment Finance Authority
CURRENT ASSETS				
Cash and investments	\$ 303,876	\$ 1,210,013	\$ 1,513,889	\$ 133,926
Receivables				
Trade	32,624	501,179	533,803	12,041
Special assessments	-	397,887	397,887	-
Notes	35,000	-	35,000	-
Internal balances	(71,723)	71,723	-	-
Due from other governmental units	138,301	-	138,301	-
Inventories	-	281,745	281,745	-
Total current assets	438,078	2,462,547	2,900,625	145,967
NONCURRENT ASSETS				
Restricted assets				
Capital assets, net	-	453,331	453,331	-
Nondepreciable				
Depreciable	9,315	234,542	243,857	-
Bond issue costs, net	1,001,300	15,583,234	16,584,534	-
Special assessments, less current portion	45,880	213,595	259,475	-
Note receivable, less current portion	274,471	4,397,136	4,671,607	-
Total noncurrent assets	850,000	-	850,000	-
Total assets	2,180,966	20,881,838	23,062,804	-
	2,619,044	23,344,385	25,963,429	145,967
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts payable and accrued expenses	118,585	214,798	333,383	2,715
Customer deposits	-	29,660	29,660	-
Deferred revenue	-	12,302	12,302	-
Bonds, capital leases and contracts, due within one year	83,500	518,500	602,000	-
Accrued interest, due within one year	9,047	40,749	49,796	-
Total current liabilities	211,132	816,009	1,027,141	2,715
NONCURRENT LIABILITIES				
Bonds, capital leases and contracts, less amounts due within one year	1,160,013	6,631,681	7,791,694	-
Compensated absences, less amounts due within one year	82,389	63,473	145,862	-
Total noncurrent liabilities	1,242,402	6,695,154	7,937,556	-
Total liabilities	1,453,534	7,511,163	8,964,697	2,715
NET ASSETS				
Invested in capital assets, net of related debt	652,102	9,186,095	9,838,197	-
Restricted for:				
Capital projects	133,529	-	133,529	-
Debt service	21,858	453,331	475,189	-
Unrestricted	358,021	6,193,796	6,551,817	143,252
Total net assets	\$ 1,165,510	\$ 15,833,222	\$ 16,998,732	\$ 143,252

The accompanying notes are an integral part of this statement.

City of Hart
STATEMENT OF ACTIVITIES
For the year ended June 30, 2004

Functions/Programs	Program Revenue				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for services	Operating grants and contributions	Capital grants and contributions	Primary Government		Component Unit
					Governmental activities	Business-type activities	Tax Increment Finance Authority
Primary government							
Governmental activities							
General government	\$ 237,573	\$ 106,485	\$ -	\$ 26,530	\$ (104,558)	\$ -	\$ -
Public safety	440,369	5,623	6,590	-	(428,156)	-	-
Public works	396,978	35,577	151,121	283,070	72,790	-	-
Community and economic development	3,676	-	-	-	(3,676)	-	-
Culture and recreation	81,748	76,329	41,128	6,000	41,709	-	-
Interest on long-term debt	52,475	-	-	-	(52,475)	-	-
Total governmental activities	1,212,819	224,014	198,839	315,600	(474,366)	-	-
Business-type activities:							
Hydro	2,291,723	2,708,467	-	-	-	416,744	-
Water and sewer	1,789,139	1,092,632	-	330,615	-	(365,892)	-
Total business-type activities	4,080,862	3,801,099	-	330,615	-	50,852	-
Total primary government	\$ 5,293,681	\$ 4,025,113	\$ 198,839	\$ 646,215	(474,366)	50,852	-
Component unit:							
Tax Increment Finance Authority	\$ 54,037	\$ -	\$ -	\$ -	-	-	(54,037)
General revenues:							
Property taxes							
Grants and contributions not restricted to specific programs					692,500	-	26,509
Unrestricted investment earnings					201,042	-	-
Other					9,685	203,805	882
Special item—gain (loss) on sale of asset					7,278	5,651	-
Transfers					(48,372)	221,006	-
					(56,288)	56,288	4,815
Total general revenues, special items, and transfers					805,845	486,750	-
Change in net assets					331,479	537,602	32,206
Net assets at July 1, 2003					834,031	15,295,620	(21,831)
Net assets at June 30, 2004					\$ 1,165,510	\$ 15,833,222	\$ 143,252

The accompanying notes are an integral part of this statement.

City of Hart
BALANCE SHEET
 Governmental Funds
 June 30, 2004

ASSETS				
	General Fund	Building Authority - Library	Other governmental funds	Total governmental funds
Cash and investments	\$ 70,829	\$ 2,125	\$ 230,922	\$ 303,876
Receivables				
Special assessments	-	-	274,471	274,471
Other	24,609	-	6,528	31,137
Due from other governmental units	65,145	48,701	24,455	138,301
Advances to other funds	15,273	-	-	15,273
Total assets	<u>\$ 175,856</u>	<u>\$ 50,826</u>	<u>\$ 536,376</u>	<u>\$ 763,058</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 36,318	\$ 3,701	\$ 4,580	\$ 44,599
Retainage payable	-	45,000	-	45,000
Accrued liabilities	25,246	-	3,740	28,986
Due to other funds	-	-	72,943	72,943
Deferred revenue	-	-	292,704	292,704
Advances from other funds	-	-	14,054	14,054
Total liabilities	<u>61,564</u>	<u>48,701</u>	<u>388,021</u>	<u>498,286</u>
Fund balances (deficits)				
Reserved for:				
Advances	15,273	-	-	15,273
Debt service	-	-	21,858	21,858
Capital projects	-	2,125	133,529	135,654
Unreserved				
General fund	99,019	-	-	99,019
Special revenue funds	-	-	45,452	45,452
Capital projects funds	-	-	(52,484)	(52,484)
Total fund balances (deficits)	<u>114,292</u>	<u>2,125</u>	<u>148,355</u>	<u>264,772</u>
Total liabilities and fund balances	<u>\$ 175,856</u>	<u>\$ 50,826</u>	<u>\$ 536,376</u>	<u>\$ 763,058</u>

The accompanying notes are an integral part of this statement.

City of Hart
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
June 30, 2004

Total fund balance—governmental funds	\$	264,772
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds.		
Cost of capital assets	\$	1,662,596
Accumulated depreciation		<u>(651,981)</u>
		1,010,615
Bond issuance costs are not capitalized and amortized in the governmental funds.		
Bond issuance costs		50,162
Accumulated amortization		<u>(4,282)</u>
		45,880
Certain receivables in governmental activities are not available to pay for current period expenditures and are not reported in the governmental funds.		
		886,488
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.		
		292,704
Long-term liabilities in governmental activities are not due and payable in the current period and are not reported in the governmental funds.		
Bonds payable		(1,243,513)
Compensated absences		<u>(82,389)</u>
		(1,325,902)
Accrued interest in governmental activities is not reported in the governmental funds.		
		(9,047)
Net assets of governmental activities in the Statement of Net Assets	\$	<u><u>1,165,510</u></u>

The accompanying notes are an integral part of this statement.

City of Hart
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Governmental Funds
For the year ended June 30, 2004

REVENUES	General Fund	Building Authority - Library	Other governmental funds	Total governmental funds
Property taxes	\$ 622,403	\$ -	\$ 69,299	\$ 691,702
Licenses and permits	6,746	-	-	6,746
Intergovernmental revenues				
State	201,042	-	151,120	352,162
Local	27,386	76,128	-	103,514
Special assessments	-	-	10,467	10,467
Charges for services	230,160	-	73,529	303,689
Fines and forfeitures	4,147	-	-	4,147
Investment earnings	2,883	4,282	2,520	9,685
Other	24,795	-	84	24,879
Total revenues	1,119,562	80,410	307,019	1,506,991
EXPENDITURES				
Current				
General government	222,906	2,481	-	225,387
Public safety	427,803	-	-	427,803
Public works	227,776	-	221,774	449,550
Community and economic development	3,676	-	-	3,676
Culture and recreation	19,977	-	60,633	80,610
Debt service				
Principal	22,609	-	55,000	77,609
Interest and other charges	1,883	-	61,231	63,114
Capital outlay	61,400	911,059	353,425	1,325,884
Total expenditures	988,030	913,540	752,063	2,653,633
Excess of revenues over (under) expenditures	131,532	(833,130)	(445,044)	(1,146,642)
OTHER FINANCING SOURCES (USES)				
Proceeds from long-term debt, net	-	-	251,454	251,454
Proceeds from sale of fixed assets	-	269,024	-	269,024
Operating transfers in	579	-	136,294	136,873
Operating transfers out	(106,403)	(76,128)	(10,630)	(193,161)
Total other financing sources (uses)	(105,824)	192,896	377,118	464,190
Net change in fund balances	25,708	(640,234)	(67,926)	(682,452)
Fund balances at July 1, 2003	88,584	642,359	216,281	947,224
Fund balances at June 30, 2004	\$ 114,292	\$ 2,125	\$ 148,355	\$ 264,772

The accompanying notes are an integral part of this statement.

City of Hart
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

For the year ended June 30, 2004

Net change in fund balances—total governmental funds:		\$ (682,452)
Amounts reported for Governmental Activities in the Statement of Activities are different because:		
Revenue reported in the Statement of Activities that does not provide current financial resources are not reported as revenue in the governmental funds.		276,201
Payments received on notes receivable are reported as revenues in the governmental funds; the payments are netted against notes receivable on the Statement of Net Assets.		(35,000)
Proceeds from sale of fixed assets are reported as revenues in the governmental funds; proceeds are netted against net book value in the Statement of Activities and a net resulting gain or loss is recorded.		(317,396)
Governmental funds report outlays for capital assets as expenditures in the Statement of Activities; these costs are depreciated over their estimated useful lives.		
Depreciation expense	\$ (62,867)	
Capital outlay	<u>1,325,884</u>	1,263,017
Proceeds from bond issuance is an other financing source in the governmental funds, but the proceeds increase long-term debt in the Statement of Net Assets.		(251,454)
Bond issuance costs are not capitalized and amortized in the governmental funds.		
Bond issuance costs	14,943	
Amortization expense	<u>(3,068)</u>	11,875
Repayment of principal on long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		77,609
Accrued interest on long-term debt is recorded in the Statement of Activities when incurred, but is not reported in the governmental funds until paid.		(1,236)
Increases in the compensated absences are reported on the accrual method in the Statement of Activities and reported as expenditures when financial resources are used in the governmental funds.		(9,685)
Change in net assets of governmental activities		<u>\$ 331,479</u>

The accompanying notes are an integral part of this statement.

City of Hart
STATEMENT OF NET ASSETS
 Proprietary Funds
 June 30, 2004
 ASSETS

	Business-type Activities - Enterprise Funds		
	Hydro	Water and Sewer	Total
CURRENT ASSETS			
Cash and investments	\$ 1,210,013	\$ -	\$ 1,210,013
Receivables			
Trade	385,226	115,953	501,179
Special assessments	-	397,888	397,888
Due from other funds	72,943	-	72,943
Inventories	225,989	55,756	281,745
Total current assets	1,894,171	569,597	2,463,768
NONCURRENT ASSETS			
Restricted cash and investments	104,000	349,331	453,331
Special assessments, less current portion	-	4,397,136	4,397,136
Advances to other funds	751,079	-	751,079
Capital assets, net			
Nondepreciable	106,089	128,453	234,542
Depreciable	3,941,559	11,641,675	15,583,234
Bond issuance costs, net of amortization	34,229	179,365	213,594
Total noncurrent assets	4,832,956	16,346,629	21,179,585
Total assets	6,831,127	17,265,557	24,096,684
CURRENT LIABILITIES			
Accounts payable	155,258	32,961	188,219
Accrued expenses	21,536	45,793	67,329
Customer deposits	29,660	-	29,660
Deferred revenue	-	12,302	12,302
Bonds, capital leases and contracts, due within one year	52,300	466,200	518,500
Total current liabilities	258,754	557,256	816,010
NONCURRENT LIABILITIES			
Advances from other funds	-	752,298	752,298
Bonds, capital leases and contracts, less amounts due within one year	808,589	5,823,092	6,631,681
Compensated absences, less amounts due within one year	43,531	19,942	63,473
Total noncurrent liabilities	852,120	6,595,332	7,447,452
Total liabilities	1,110,874	7,152,588	8,263,462
NET ASSETS			
Invested in capital assets, net of related debt	3,239,059	5,947,036	9,186,095
Restricted for debt service	104,000	349,331	453,331
Unrestricted	2,377,194	3,816,602	6,193,796
Total net assets	\$ 5,720,253	\$ 10,112,969	\$ 15,833,222

The accompanying notes are an integral part of this statement.

City of Hart
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
 Proprietary Funds
 For the year ended June 30, 2004

	Business-type Activities - Enterprise Funds		
	Hydro	Water and Sewer	Total
REVENUES			
Charges for services	\$ 2,708,467	\$ 1,092,632	\$ 3,801,099
Other	5,651	-	5,651
Total operating revenues	2,714,118	1,092,632	3,806,750
OPERATING EXPENSES			
Administration	213,131	199,562	412,693
Operations	1,849,614	852,443	2,702,057
Depreciation and amortization	188,867	444,982	633,849
Total operating expenses	2,251,612	1,496,987	3,748,599
Operating income (loss)	462,506	(404,355)	58,151
NONOPERATING REVENUES (EXPENSES)			
Special assessments	-	330,615	330,615
Investment income	8,413	195,392	203,805
Interest expense	(40,111)	(292,152)	(332,263)
Total nonoperating revenue (expenses)	(31,698)	233,855	202,157
Income (loss) before contributions and transfers	430,808	(170,500)	260,308
Transfers in	-	56,288	56,288
Forgiveness of debt	(651,240)	651,240	-
Gain on sale of land	-	221,006	221,006
Change in net assets	(220,432)	758,034	537,602
Total net assets at July 1, 2003, restated	5,940,685	9,354,935	15,295,620
Total net assets at June 30, 2004	\$ 5,720,253	\$ 10,112,969	\$ 15,833,222

The accompanying notes are an integral part of this statement.

City of Hart
STATEMENT OF CASH FLOWS
 Proprietary Funds
 For the year ended June 30, 2004

	Enterprise Funds		
	Hydro	Water and Sewer	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 2,396,336	\$ 1,106,356	\$ 3,502,692
Receipts from interfund services provided	336,504	2,436	338,940
Payments to suppliers	(1,790,308)	(800,029)	(2,590,337)
Payments to employees	(321,146)	(205,834)	(526,980)
Internal activity—payments to other funds	(10,515)	-	(10,515)
Net cash provided by operating activities	610,871	102,929	713,800
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers from other funds	-	56,288	56,288
Advances to other funds	(77,553)	-	(77,553)
Advances from other funds	86,680	(37,075)	49,605
Net cash provided by (used for) capital and related financing activities	9,127	19,213	28,340
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Special assessment collections	-	275,624	275,624
Proceeds from capital debt	-	483,546	483,546
Purchases of capital assets	(239,860)	(546,544)	(786,404)
Principal and interest paid on capital debt	(89,722)	(718,514)	(808,236)
Proceeds from sale of capital assets	-	223,000	223,000
Net cash used for capital and related financing activities	(329,582)	(282,888)	(612,470)
CASH FLOW FROM INVESTING ACTIVITIES			
Interest and dividends	8,413	195,392	203,805
Net increase in cash and investments	298,829	34,646	333,475
Cash and investments at July 1, 2003	1,015,184	314,685	1,329,869
Cash and investments at June 30, 2004	<u>\$ 1,314,013</u>	<u>\$ 349,331</u>	<u>\$ 1,663,344</u>
Reconciliation of operating income (loss) to net cash provided by operating activities			
Operating income (loss)	\$ 462,506	\$ (404,355)	\$ 58,151
Adjustments to reconcile operating income to net cash provided by operating activities			
Depreciation expense	188,867	444,982	633,849
Change in assets and liabilities			
Decrease in receivables, net	18,722	4,858	23,580
(Increase) in due from other funds	(10,515)	-	(10,515)
Decrease in inventories	12,684	13,257	25,941
Increase (decrease) in accounts payable	(54,708)	26,804	(27,904)
Increase in customer deposits payable	2,643	-	2,643
Increase (decrease) in accrued expenses	(245)	11,009	10,764
(Decrease) in compensated absences	(9,083)	(4,928)	(14,011)
Increase in deferred revenue	-	11,302	11,302
Net cash provided by operating activities	<u>\$ 610,871</u>	<u>\$ 102,929</u>	<u>\$ 713,800</u>
Noncash financing activities			
Forgiveness of debt	(651,240)	651,240	-

The accompanying notes are an integral part of this statement.

City of Hart
STATEMENT OF FIDUCIARY NET ASSETS
 Fiduciary Funds
 June 30, 2004

ASSETS

Cash and investments
 Loan receivables

Total assets

NET ASSETS

Held in trust for benefits and other purposes

Expendable Trust Fund	Historic District Commission	Pension Trust Fund	Tax Collection Fund
\$ 17,029	\$ 17,029	\$ 653,037	\$ -
-	-	20,266	-
\$ 17,029	\$ 17,029	\$ 673,303	\$ -
\$ 17,029	\$ 17,029	\$ 673,303	\$ -

The accompanying notes are an integral part of this statement.

City of Hart
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 Fiduciary Funds
 For the year ended June 30, 2004

	Expendable Trust Fund	Pension Trust Fund
ADDITIONS		
Contributions		
Employer	-	\$ 30,137
Plan members	-	14,513
Total contributions	-	44,650
Investment earnings	127	88,515
Charges for services	330	-
Miscellaneous	118	-
Total additions	575	133,165
DEDUCTIONS		
Administrative expenses	2,243	648
Change in net assets	(1,668)	132,517
Net assets at July 1, 2003	18,697	540,786
Net assets at June 30, 2004	\$ 17,029	\$ 673,303

The accompanying notes are an integral part of this statement.

City of Hart
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Hart (City) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

Effective July 1, 2003, the City adopted GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 37 and No. 38. These statements primarily establish standards for external financial reporting for state and local governments. Certain significant changes in these statements include the following:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the City's overall financial position and results of operations.
- Government-wide financial statements prepared using full accrual accounting for all of the City's activities.
- A change in the fund financial statements to focus on the major funds.
- Expansion of footnote disclosures.
- These and other changes are reflected in the accompanying financial statements, including notes to financial statements.

The beginning net assets restated for the effects of implementation of GASB Statement No. 34 are as follows:

Fund balances at July 1, 2003—governmental funds	\$ 947,224
Receivables	690
Deferred charges, net	34,005
Capital assets, net	1,014,994
Accrued liabilities	(7,811)
Long-term liabilities	(1,069,668)
Compensated absences	(72,704)
Deferred revenue	17,301
Capital lease paid in advance	<u>(30,000)</u>
Restated net assets at July 1, 2003	\$ <u>834,031</u>

Additionally, the City's Hydro Fund net assets reflects an increase of \$53,123 for a correction of an error. The correction is funds held by a supplier for the City for a settlement from a class action law suit from which the City was a beneficiary. The funds will be used to offset the cost of services provided by the electricity supplier.

City of Hart
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
June 30, 2004

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

1. Reporting Entity

The City of Hart (City) is a municipal corporation governed by an elected mayor and a six-member City Council and is administered by a city manager appointed by the City Council. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations. The discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the government.

Blended Component Unit

Building Authority. The City appoints all Board members and approves annual budgets for the Authority, and the legal liability for the general obligation portion of the Authority's debt remains with the City. The Authority is reported as a debt service and capital projects fund.

Discretely Presented Component Unit

The discretely presented component unit reported by the City is the Tax Increment Finance Authority (TIFA). The TIFA board is appointed by the City Council, but the board, after appointments, operates as a separate entity. The TIFA board can authorize and issue debt independent from the City. The TIFA is presented as a governmental fund type.

The City of Hart's cemetery is a related organization which is excluded from the financial reporting entity because the City's accountability does not extend beyond making appointments. The City pays one-half of the cemetery's expenditures. Audited financial statements are available from the cemetery.

2. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements.

Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirement of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

City of Hart
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
June 30, 2004

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

3. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Building Authority Fund is the capital projects fund to account for the construction of the new Library building.

The City reports the following major proprietary funds:

The Water and Sewer Fund operates the City's sewage collection and treatment and water distribution systems.

The Hydro Fund purchases and distributes electrical services to the residents of the City.

Additionally, the City reports the following fund types:

The private purpose simple trust fund is used to account for resources held in trust for the Historic District Commission.

The Pension Trust Fund accounts for the activities of the City's employees' retirement plan, which accumulates resources for pension benefit payments.

The Property Tax Collection Fund is an agency fund, custodial in nature, and does not measure results of operations or have a measurement focus.

City of Hart
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
June 30, 2004

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

3. Measurement Focus, Basis of Accounting and Financial Statement Presentation—Continued

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues are charges to customers for sales and services. The enterprise funds also recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

4. Assets, Liabilities and Net Assets or Equity

a. Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of six months or less from the date of acquisition.

The City has adopted an investment policy in compliance with State of Michigan statutes. Those statutes authorize the City to invest in obligations of the United States, certificates of deposit, prime commercial paper, securities guaranteed by United States agencies or instrumentalities, United States government or federal agency obligation repurchase agreements, bankers acceptances, state-approved investment pools and certain mutual funds.

The component unit's cash and cash equivalents are maintained in its own cash account.

City of Hart
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
June 30, 2004

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

4. Assets, Liabilities and Net Assets or Equity—Continued

b. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Special assessments receivables are assessments on properties benefited by water, sewer and road improvement projects. The revenues generated from the special assessments are used to make the principal and interest payments on debt utilized to finance those projects.

All trade and property tax receivables are shown net of allowance for uncollectibles.

The City bills and collects its own property taxes. Taxes levied on July 1 are due without penalty on or before August 31. The property taxes attach as an enforceable lien on property as of July 1. Uncollected real property taxes as of the following March 1 are turned over by the City to the County for collection. The County advances the City all of these delinquent real property taxes. Collection of delinquent personal property taxes as of March 1 remain the responsibility of the City Treasurer. Since substantially all City property taxes levied are current receivables, tax revenues are recognized when levied.

The 2003 state taxable value for real/personal property of the City totaled approximately \$45,761,403 of which approximately \$1,222,250 was captured by the TIFA. The ad valorem taxes levied consisted of 12.68 mills for operation and 1.95 mills for Street Improvements. An additional 2.0 mills is levied on all taxable value in the TIFA district of approximately \$3,218,000 for operations. These amounts are recognized in the respective General Fund, Street Improvements Capital Project Fund, and TIFA component unit.

c. Inventories and Prepaid Items

All inventories are valued at cost using the first-in/first-out(FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

d. Restricted Assets

Certain proceeds of the Enterprise Fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants.

City of Hart
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
June 30, 2004

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

4. Assets, Liabilities and Net Assets or Equity—Continued

e. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$2,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The City has elected to capitalize infrastructure assets using the prospective approach, from fiscal year 2004 forward.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant and equipment is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	20-50
Buildings	30-50
Public domain infrastructure	20-30
System infrastructure and improvements	15-50
Vehicles and equipment	5-10

f. Compensated Absences

The City has established an “earned time off” (ETO) policy.

ETO accumulates up to 32 hours per month, based on employee length of service. Maximum accumulation of 840 hours of general employees and 900 hours for police officers is allowed. ETO over the maximum accumulation is paid by the City at 50 percent of the excess accumulation at the close of each fiscal year. Upon non-disciplinary termination of employment, 75 percent of the accumulated ETO is paid.

City of Hart
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
June 30, 2004

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

4. Assets, Liabilities and Net Assets or Equity—Continued

g. Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net assets. Bond premiums and discounts as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

h. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

i. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures.

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

1. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds except the capital projects funds, which adopt project-length budgets, and the permanent fund, which is not budgeted. All annual appropriations lapse at fiscal year end.

The City follows these procedures in establishing the budgetary information provided in the financial statements:

- a. Prior to June 30, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted at the City Hall to obtain taxpayer comments.

City of Hart
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
June 30, 2004

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY—Continued

1. Budgetary Information—Continued

- c. Not later than the second Monday in May, the budget is legally enacted through passage of a resolution.
- d. Supplemental appropriations, when required to provide for additional expenditures, are matched by additional anticipated revenues or an appropriation of available fund balance and must be approved by the City Council. All appropriations lapse at year end.

The appropriated budget is prepared by fund, function and department. The City's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the City Council. The legal level of budgetary control is the department level. The City Council made several supplemental budgetary appropriations throughout the year.

2. Fund Deficits

As of June 30, 2004, the funds listed below had accumulated deficits as follows:

<u>Fund</u>	<u>Accumulated deficits</u>
Special revenue funds	
Local Streets	\$ 9,897
Capital projects funds	
Street Improvements	52,484

The deficits will be eliminated through future operations and operating transfers.

NOTE C—DEPOSITS AND INVESTMENTS

1. Deposits

The City's deposits are categorized to give an indication of the level of risk assumed by the entity at year end. Category 1 includes deposits insured or collateralized with securities held by the entity or its agent in the entity's name. Category 2 includes deposits collateralized with securities held by the pledging financial institutions' trust department or agent in the entity's name. Category 3 includes deposits which are uncollateralized.

As of June 30, 2004, the City's carrying amount of deposits was \$166,398 and the bank balance was \$167,905. Of the bank balance, \$132,336 was covered by federal depository insurance.

City of Hart
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
June 30, 2004

NOTE C—DEPOSITS AND INVESTMENTS—Continued

2. Investments

As of June 30, 2004, the City's and the discretely presented component unit's investments represented holdings in a municipal investment pool, mutual funds and certificates of deposit with original maturities of longer than six months. During the year ended June 30, 2004, the City's investments were only in these types of investments.

The City's investments are categorized below to give an indication of the level of risk assumed by the entity at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent but not in the City's name. The state-approved investment pools are not categorized as they are synonymous with mutual funds. The City's fair value of investments in those pools and mutual funds were \$2,538,364 at June 30, 2004.

	<u>Category</u>			<u>Fair value</u>
	<u>1</u>	<u>2</u>	<u>3</u>	
Certificates of Deposit	\$ <u>70,449</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>70,449</u>

The composition of pension trust fund investments at fair value is included in the previous paragraph and shown in the following table:

Domestic equities funds	\$ 441,971
Fixed income funds	163,259
International funds	45,713
Money market funds	<u>2,094</u>
	\$ <u>653,037</u>

Below is a summary of the combined balance sheet deposits and investments:

	<u>Deposits</u>	<u>Investments</u>	<u>Total</u>
Cash and investments	\$ 166,398	\$ 2,151,483	\$ 2,317,881
Restricted assets	<u>-</u>	<u>453,331</u>	<u>453,331</u>
	\$ <u>166,398</u>	\$ <u>2,604,814</u>	\$ <u>2,771,212</u>

3. Restricted Assets

Restrictions are placed on assets by bond ordinance and City Council action. At June 30, 2004, restricted cash and investments in the Enterprise funds are restricted as follows:

Water and Sewer Fund	
Operations and maintenance reserve	\$ 66,870
Bond and interest redemption fund	267,667
Repairs and replacement	14,794
Hydro Fund	
Bond and interest redemption	<u>104,000</u>
	\$ 453,331

City of Hart
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
June 30, 2004

NOTE D—NOTE RECEIVABLE

The Building Authority Capital Projects Fund sold a building that it constructed to Hart District Library through a capital lease. The agreement requires annual payments of \$30,000 to \$70,000 plus interest at rates varying from 3.5 percent to 5 percent through June 2022.

NOTE E—CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2004 was as follows:

	Balance <u>July 1, 2003</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>June 30, 2004</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 89,315	\$ -	\$ 80,000	\$ 9,315
Land improvements	<u>-</u>	<u>2,678</u>	<u>2,678</u>	<u>-</u>
Total Capital assets, not being depreciated	89,315	2,678	82,678	9,315
Capital assets, being depreciated:				
Buildings and improvements	843,163	908,381	1,182,719	568,825
Furniture and equipment	671,630	39,551	2,000	709,181
Infrastructure	<u>-</u>	<u>375,275</u>	<u>-</u>	<u>375,275</u>
Total capital assets being depreciated	1,514,793	1,323,207	1,184,719	1,653,281
Less accumulated depreciation:				
Buildings and improvements	275,966	6,210	-	282,176
Furniture and equipment	<u>313,148</u>	<u>56,657</u>	<u>-</u>	<u>369,805</u>
Total accumulated depreciation	<u>589,114</u>	<u>62,867</u>	<u>-</u>	<u>651,981</u>
Total capital assets, being depreciated, net	<u>925,679</u>	<u>1,260,340</u>	<u>1,184,719</u>	<u>1,001,300</u>
Capital assets, net	<u>\$ 1,014,994</u>	<u>\$ 1,263,018</u>	<u>\$ 1,267,397</u>	<u>\$ 1,010,615</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 236,536	\$ -	\$ 1,994	\$ 234,542
Capital assets, being depreciated:				
Hydro System	6,998,546	156,361	-	7,154,907
Water System	2,771,380	214,293	-	2,985,673
Sewer System	12,494,932	332,251	-	12,827,183
Furniture and equipment	<u>630,293</u>	<u>83,500</u>	<u>-</u>	<u>713,793</u>
Total capital assets, being depreciated	22,895,151	786,405	-	23,681,556

City of Hart
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
June 30, 2004

NOTE E—CAPITAL ASSETS—Continued

Business-type activities:

Less accumulated depreciation:

Hydro System	\$ 3,264,332	\$ 159,011	\$ -	\$ 3,423,343
Water System	1,365,693	73,276	-	1,438,969
Sewer System	2,488,503	357,527	-	2,846,030
Furniture and equipment	<u>345,944</u>	<u>44,036</u>	<u>-</u>	<u>389,980</u>
Total accumulated depreciation	<u>7,464,472</u>	<u>633,850</u>	<u>-</u>	<u>8,098,322</u>
Total capital assets, being depreciated, net	<u>15,430,679</u>	<u>152,555</u>	<u>-</u>	<u>15,583,234</u>
Capital assets, net	<u>\$15,667,215</u>	<u>\$ 152,555</u>	<u>\$ 1,994</u>	<u>\$15,817,776</u>

Depreciation

Depreciation expense was charged to functions as follows:

Government activities:

General government	\$ 15,574
Public safety	10,111
Public works	30,856
Culture and recreation	<u>6,326</u>
	<u>\$ 62,867</u>

Business-type activities:

Hydro	\$ 188,867
Water and sewer	<u>444,983</u>
	<u>\$ 633,850</u>

NOTE F—DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue, which represented unavailable and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Special assessments not yet due	\$ 274,004	\$ -
Camping fees not yet earned	<u>-</u>	<u>18,700</u>
	<u>\$ 274,004</u>	<u>\$ 18,700</u>

City of Hart
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
June 30, 2004

NOTE G—INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	<u>Purpose</u>
Hydro	Nonmajor governmental	\$ 72,943	Operations and construction
Nonmajor governmental fund	Water and Sewer	<u>9,329</u>	Debt Service
Total		<u>\$ 82,272</u>	

Advances from/to other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	<u>Purpose</u>
General	Water and Sewer	\$ 15,273	Operations
Hydro	Nonmajor governmental	14,054	Operations
Hydro	Water and Sewer	<u>737,024</u>	Operations
		<u>\$ 766,351</u>	

Interfund transfers:

<u>Transfer out</u>	<u>Transfers in</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	Water and Sewer Fund	\$ 54,243	Operations
	Nonmajor governmental funds	52,160	Operations
Building Authority-Library	Nonmajor governmental funds	76,128	Debt Service
Nonmajor governmental funds	Water and Sewer Fund	2,045	Operations
	Nonmajor governmental funds	8,585	Operations
Hydro Fund	Water and Sewer Fund	<u>651,240</u>	Forgiveness of debt
		<u>\$ 844,401</u>	

NOTE H—LONG-TERM DEBT

Summary of Changes in Long-Term Liabilities

The following is a summary of long-term liabilities activity for the City for the year ended June 30, 2004.

	<u>Balance July 1, 2003</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2004</u>	<u>Due within one year</u>
Governmental activities:					
General obligation bonds	\$ 920,000	\$ 85,000	\$ 35,000	\$ 970,000	\$ 40,000
Michigan Transportation fund bonds	100,000	-	20,000	80,000	20,000
Special Assessment bonds	-	166,454	-	166,454	-
Installment purchase agreements	49,668	-	22,609	27,059	23,500
Compensated absences	<u>72,704</u>	<u>9,685</u>	<u>-</u>	<u>82,389</u>	<u>-</u>
Governmental activity					
Long-term liabilities	<u>\$ 1,142,372</u>	<u>\$ 261,139</u>	<u>\$ 77,609</u>	<u>\$ 1,325,902</u>	<u>\$ 83,500</u>

City of Hart
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
June 30, 2004

NOTE H—LONG-TERM DEBT—Continued

Summary of Changes in Long-Term Liabilities—Continued

	<u>Balance</u> <u>July 1, 2003</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2004</u>	<u>Due within</u> <u>one year</u>
Business-type activities:					
Special assessment bonds	\$ 85,000	\$ 483,546	\$ 15,000	\$ 553,546	\$ 20,000
Revenue bonds	2,440,000	-	200,000	2,240,000	205,000
Contractual obligations	4,610,000	-	275,000	4,335,000	285,000
Installment purchase agreements	29,828	-	8,193	21,635	8,500
Compensated absences	77,484	-	14,011	63,473	-
	<u>\$ 7,242,312</u>	<u>\$ 483,546</u>	<u>\$ 512,204</u>	<u>\$ 7,213,654</u>	<u>\$ 518,500</u>
				<u>Balance</u> <u>June 30, 2004</u>	
Governmental activities					
General obligation bonds:					
\$950,000 Building Authority Bonds, series 2003 due in annual installments of \$35,000 to \$70,000 through June 2022; interest varying from 3.5% to 5%				\$ 885,000	
\$85,000 General Obligation Bonds, series 2004 due in annual installments of \$5,000 to \$10,000 through September 2013; interest at rates varying from 3.2% to 4%				<u>85,000</u> 970,000	
Michigan Transportation Fund bonds:					
\$250,000 Transportation Fund Bonds of 1993 due in annual installments of \$20,000 through August 2007; interest at 5.8%				80,000	
Special Assessment bonds:					
\$166,454 Special Assessment bonds, series 2004 due in annual installments of \$1,300 to \$27,300 through September, 2013; interest at rates varying from 3.2% to 4%				166,454	
Installment purchase agreements:					
\$11,474 Note payable to bank due in semi-annual installments including interest, of approximately \$1,200 through September 2006; interest at 3.3%				5,889	

City of Hart
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
June 30, 2004

NOTE H—LONG-TERM DEBT—Continued

Summary of Changes in Long-Term Liabilities—Continued

	Balance <u>June 30, 2004</u>
Governmental activities	
Installment purchase agreements:	
\$80,000 Note payable in annual installments of \$21,170 plus interest through February 2005; interest at 3.9%	\$ 21,170 27,059 1,243,513 82,389
Compensated absences	<u>\$ 1,325,902</u>
Business-type activities:	
Revenue bonds:	
\$1,715,000 Water and Sewer Revenue Refunding Bonds, Series 1998 due in annual installments of \$115,000 to \$175,000 through July 2012; interest at rates varying from 4.8% to 5.2%	\$ 1,070,000
\$420,000 Water and Sewer Revenue Bonds, Series 2001 due in annual installments of \$40,000 to to \$50,000 through July 2011; interest at rates varying from 3.75% to 4.5%	315,000
\$950,000 Electric System Revenue Bonds, Series 2002 due in annual installments of \$50,000 to \$85,000 through April 2017; interest at rates varying from 2.85% to 5%	855,000 2,240,000
Special Assessment bonds:	
\$142,000 Special Assessment Bonds of 1998 due in annual installments of \$15,000 to \$20,000 through September 2007; interest at 4.4%	70,000
\$483,546 Special Assessment Bonds, Series 2004 due in annual installments of \$3,700 to \$77,700 through September 2013; interest at rates varying from 3.2% to 4%	483,546 553,546
Contractual obligations:	
\$5,165,000 obligation to Oceana County due in annual installments of \$285,000 to \$455,000 through November 2015; interest at rates varying from 3.5% to 4.85%	4,335,000

City of Hart
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
June 30, 2004

NOTE H—LONG-TERM DEBT—Continued

Summary of Changes in Long-Term Liabilities—Continued

	Balance June 30, 2004
Business-type activities:—Continued	
Installment purchase agreements:	
\$42,026 Note payable to bank due in semi-annual installments including interest, of approximately \$4,600 through September 2006; interest at 3.5%	\$ 21,635
	<u>\$ 7,150,181</u>

The City's water and sewer bond rating has been downgraded to "below investment grade".

The general obligation and special assessment bonds are backed by the full faith and credit of the City.

The City was in compliance in all material respects with all the revenue bond covenants at June 30, 2004.

Annual debt service requirements to maturity for debt outstanding as of June 30, 2004 follows:

Year ending June 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2005	\$ 83,500	\$ 53,900	\$ 518,500	\$ 307,000
2006	63,700	48,900	532,500	284,200
2007	62,500	46,200	543,100	263,000
2008	91,800	43,100	643,200	239,700
2009	71,800	40,000	638,200	213,000
2010-2014	472,800	160,300	3,144,600	629,600
2015-2019	280,000	91,700	1,130,081	67,600
2020-2024	<u>199,802</u>	<u>20,275</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 1,325,902</u>	<u>\$ 504,375</u>	<u>\$ 7,150,181</u>	<u>\$ 2,004,100</u>

NOTE I—BOND ISSUANCE COSTS

	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004
Governmental activities:				
Bond issuance costs				
Issuance costs	\$ 20,969	\$ 14,943	\$ -	\$ 35,912
Discount	<u>14,250</u>	<u>-</u>	<u>-</u>	<u>14,250</u>
	35,219	14,943	-	50,162
Less amortization				
over 174 months	1,214	2,429	-	3,643
over 117 months	<u>-</u>	<u>639</u>	<u>-</u>	<u>639</u>
	<u>1,214</u>	<u>3,068</u>	<u>-</u>	<u>4,282</u>
Total bond issue costs, net of amortization	<u>\$ 34,005</u>	<u>\$ 11,875</u>	<u>\$ -</u>	<u>\$ 45,880</u>

City of Hart
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
June 30, 2004

NOTE I—BOND ISSUANCE COSTS—Continued

	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004
Business-type activities:				
Bond issuance costs:				
Water and Sewer				
Issuance costs	\$ 259,820	\$ -	\$ -	\$ 259,820
Discount	16,693	-	-	16,693
Hydro				
Issuance costs	<u>39,495</u>	<u>-</u>	<u>-</u>	<u>39,495</u>
Total bond issuance cost	<u>316,008</u>	<u>-</u>	<u>-</u>	<u>316,008</u>
Less amortization:				
Water and Sewer				
over 120 months	\$ 4,401	\$ 2,200	\$ -	\$ 6,601
over 174 months	58,026	9,671	-	67,697
over 180 months	<u>15,236</u>	<u>7,618</u>	<u>-</u>	<u>22,854</u>
	77,663	19,489	-	97,152
Hydro over 180 months	<u>2,633</u>	<u>2,633</u>	<u>-</u>	<u>5,266</u>
	<u>80,296</u>	<u>22,122</u>	<u>-</u>	<u>102,418</u>
Total bond issuance costs, net of amortization	<u>\$ 235,712</u>	<u>\$ (22,122)</u>	<u>\$ -</u>	<u>\$ 213,590</u>
Amortization				
Amortization expense has been charged to the following functions:				
Business-type activities:				
Water and Sewer				\$ 19,489
Hydro				<u>2,633</u>
				<u>\$ 22,122</u>
Governmental activities				
Interest on long-term debt				<u>\$ 3,068</u>

NOTE J—OTHER INFORMATION

1. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the government carries commercial insurance. Liabilities are reported when it is probable that a loss has occurred and the amount of the loss in excess of insurance coverage can be reasonably estimated. There has been no loss in excess of insurance in the past three years.

2. Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability to the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

City of Hart
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
June 30, 2004

NOTE J—OTHER INFORMATION—Continued

3. Segment Information

	June 30, 2004		
	<u>Water</u>	<u>Sewer</u>	<u>Combined</u>
Condensed Statement of Net Assets			
Current assets	\$ 252,280	\$ 317,317	\$ 569,597
Capital assets, net	1,662,615	10,107,513	11,770,128
Other assets	<u>153,624</u>	<u>4,772,208</u>	<u>4,925,832</u>
Total assets	2,068,519	15,197,038	17,265,557
Current portion of long-term debt	-	466,200	466,200
Current liabilities	9,667	268,897	278,564
Long-term liabilities, net of current portion of long-term debt	189,684	5,653,350	5,843,034
Advances from other funds	<u>4,128</u>	<u>560,662</u>	<u>564,790</u>
Total liabilities	<u>203,479</u>	<u>6,949,109</u>	<u>7,152,588</u>
Invested in capital assets, net of related debt	1,475,375	4,471,661	5,947,036
Restricted	349,331	-	349,331
Unrestricted	<u>40,334</u>	<u>3,776,268</u>	<u>3,816,602</u>
Total net assets	<u>\$ 1,865,040</u>	<u>\$ 8,247,929</u>	<u>\$10,112,969</u>
Condensed Statement of Revenues, Expenses and Changes in Net Assets			
Operating revenues	\$ 216,328	\$ 876,304	\$ 1,092,632
Operating expenses			
Administration and operations	174,234	877,771	1,052,005
Depreciation and amortization	<u>80,202</u>	<u>364,780</u>	<u>444,982</u>
Operating income (loss)	(38,108)	(366,247)	(404,355)
Nonoperating revenues (expenses)			
Special assessments	153,624	176,991	330,615
Investment income	468	194,924	195,392
Interest expense	(3,119)	(289,033)	(292,152)
Special item-gain on sale of fixed assets	-	221,006	221,006
Transfers in	<u>203,888</u>	<u>503,640</u>	<u>707,528</u>
Change in net assets	316,753	441,281	758,034
Beginning net assets	<u>1,548,287</u>	<u>7,806,648</u>	<u>9,354,935</u>
Ending net assets	<u>\$ 1,865,040</u>	<u>\$ 8,247,929</u>	<u>\$10,112,969</u>

City of Hart
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
June 30, 2004

NOTE J—OTHER INFORMATION—Continued

3. Segment Information

	June 30, 2004		
	<u>Water</u>	<u>Sewer</u>	<u>Combined</u>
Condensed Statement of Cash Flows			
Net cash provided by operating activities	\$ 48,857	\$ 216,687	\$ 265,544
Net cash provided by (used for) noncapital financing activities	4,128	(147,530)	(143,402)
Net cash used for capital and related financing activities	(30,172)	(252,716)	(282,888)
Net cash provided by investing activities	<u>468</u>	<u>194,924</u>	<u>195,392</u>
Net increase in cash and investments	23,281	11,365	34,646
Beginning cash and investments	<u>172,237</u>	<u>142,448</u>	<u>314,685</u>
Ending cash and investments	<u>\$ 195,518</u>	<u>\$ 153,813</u>	<u>\$ 349,331</u>

NOTE K—EMPLOYEE PENSION PLANS

1. Deferred Compensation Plan

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all full-time City employees at their option, permits participants to defer a portion of their salary until future years. The deferred compensation is not available to participants until termination, retirement, death, or unforeseeable emergency. The City does not contribute to the Plan.

The Plan has created a trust for the exclusive benefit of the Plan's participants and beneficiaries under rules provided in Internal Revenue Code Section 401(f).

2. Defined Contribution Plan

The City provides pension benefits for all its full-time employees through a money purchase defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Salaried and hourly employees who have attained the age of 21 and have completed six months of service shall be eligible to participate in the plan. The City is required to contribute an amount equal to 4.5 percent of employee's annual compensation. Employees are required to contribute 2 percent of annual compensation. Employees may also make additional voluntary contributions. The City's contributions for each employee (and earnings allocated to the employee's account) are vested after five years of service. Any forfeitures are reallocated to participants. Plan provision and contribution requirements are established and may be amended by the City Council.

For fiscal year 2004, the City's contribution to the defined contribution plan was approximately \$30,000, and the employee contributions were approximately, \$14,500.

NOTE L—ECONOMIC DEPENDENCY

State of Michigan shared revenues represent 18 percent of General Fund revenues.

The City's Hydro and Water/Sewer Funds have a significant economic dependence of two local corporations that are major users of utility services. During the year ended June 30, 2004, the corporations' billings for utilities approximated 11 percent of total billings in the Hydro Fund, 66 percent of total billings in the Water/Sewer Fund.

REQUIRED SUPPLEMENTAL INFORMATION

City of Hart
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE

General Fund
For the year ended June 30, 2004

	Budgeted amounts		Actual	Variance with final budget - positive (negative)
	Original	Final		
REVENUES				
Property taxes	\$ 568,022	\$ 556,324	\$ 622,403	\$ 66,079
Licenses and permits	5,870	6,400	6,746	346
Intergovernmental revenues				
State	216,457	201,873	201,042	(831)
Local	330	108,458	27,386	(81,072)
Charges for services	181,851	197,851	230,160	32,309
Fines and forfeitures	2,450	3,644	4,147	503
Investment earnings	6,290	900	2,883	1,983
Other	6,540	10,288	24,795	14,507
Total revenues	987,810	1,085,738	1,119,562	33,824
EXPENDITURES				
Current				
General government	221,332	238,308	222,906	15,402
Public safety	414,950	430,247	427,803	2,444
Public works	225,323	223,161	227,776	(4,615)
Community and economic development	1,000	1,500	3,676	(2,176)
Culture and recreation	17,920	23,590	19,977	3,613
Debt service				-
Principal	22,609	22,609	22,609	-
Interest and other charges	1,984	1,984	1,883	101
Capital outlay	24,000	61,940	61,400	540
Total expenditures	929,118	1,003,339	988,030	15,309
Excess of revenues over (under) expenditures	58,692	82,399	131,532	49,133
OTHER FINANCING SOURCES (USES)				
Proceeds from long-term debt	-	9,173	-	(9,173)
Transfers in	-	-	579	579
Transfers out	(56,160)	(135,788)	(106,403)	29,385
Total other financing sources and uses	(56,160)	(126,615)	(105,824)	20,791
Net change in fund balances	\$ 2,532	\$ (44,216)	25,708	\$ 69,924
Fund balances at July 1, 2003			88,584	
Fund balances at June 30, 2004			<u>\$ 114,292</u>	

OTHER SUPPLEMENTAL INFORMATION

City of Hart
BALANCE SHEET
Other Governmental Funds
June 30, 2004

	Total nonmajor governmental funds	Special Revenue				Capital Projects				Debt Service	
		Major Street	Local Street	Park	Woodlawn Street special assessment	Solid waste alternative program	Street improvements	Enterprise drive	Creeks drive	1993 MTF bonds debt retire	Library debt
ASSETS											
Cash and investments	\$ 230,922	\$ 5,270	\$ 9	\$ 31,715	\$ 349	\$ 30,529	\$ 5,337	\$ 135,855	\$ -	\$ 16,728	\$ 5,130
Receivables											
Special assessments	274,471	-	-	-	1,401	-	-	75,105	197,965	-	-
Other	6,528	-	-	6,406	-	-	122	-	-	-	-
Due from other governmental units	24,455	17,211	7,244	-	-	-	-	-	-	-	-
Total assets	\$ 536,376	\$ 22,481	\$ 7,253	\$ 38,121	\$ 1,750	\$ 30,529	\$ 5,459	\$ 210,960	\$ 197,965	\$ 16,728	\$ 5,130

LIABILITIES AND FUND BALANCES (DEFICITS)

Liabilities											
Accounts payable	\$ 4,580	\$ 541	\$ 1,713	\$ -	\$ -	\$ -	\$ -	\$ 2,326	\$ -	\$ -	\$ -
Accrued liabilities	3,740	2,164	1,383	193	-	-	-	-	-	-	-
Due to other funds	72,943	15,000	-	-	-	-	57,943	-	-	-	-
Deferred revenue	292,704	-	-	18,700	934	-	-	75,105	197,965	-	-
Advances from other funds	14,054	-	14,054	-	-	-	-	-	-	-	-
Total liabilities	388,021	17,705	17,150	18,893	934	-	57,943	77,431	197,965	-	-
Fund balances (deficits)											
Reserved for:											
Debt service	21,858	-	-	-	-	-	-	-	-	16,728	5,130
Capital projects	133,529	-	-	-	-	-	-	133,529	-	-	-
Unreserved	(7,032)	4,776	(9,897)	19,228	816	30,529	(52,484)	-	-	-	-
Total fund balances (deficits)	148,355	4,776	(9,897)	19,228	816	30,529	(52,484)	133,529	-	16,728	5,130
Total liabilities and fund balances	\$ 536,376	\$ 22,481	\$ 7,253	\$ 38,121	\$ 1,750	\$ 30,529	\$ 5,459	\$ 210,960	\$ 197,965	\$ 16,728	\$ 5,130

City of Hart
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (DEFICITS)
 Governmental Funds
 For the year ended June 30, 2004

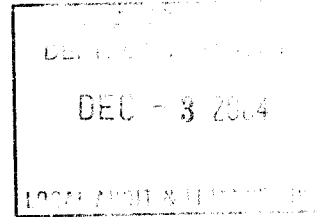
	Special Revenue			Capital Projects			Debt Service				
	Total nonmajor governmental funds	Major Street	Local Street	Park	Woodlawn Street special assessment	Solid waste alternative program	Street improvements	Enterprise drive	Creeks drive	1993 MTF bonds debt retire	Library debt
REVENUES											
Property taxes	\$ 69,299	\$ -	\$ -	\$ -	\$ -	-	\$ 69,299	\$ -	\$ -	\$ -	-
Intergovernmental revenues - state	151,120	105,413	45,707	-	-	-	-	-	-	-	-
Special assessments	10,467	-	-	-	467	-	-	10,000	-	-	-
Charges for services	73,529	-	-	73,529	-	-	-	-	-	-	-
Investment earnings	2,520	60	-	81	112	81	55	1,948	-	95	88
Other	84	-	-	-	-	84	-	-	-	-	-
Total revenues	307,019	105,473	45,707	73,610	579	165	69,354	11,948	-	95	88
EXPENDITURES											
Current											
Public works	221,774	126,814	91,971	-	-	1,680	90	494	725	-	-
Culture and recreation	60,633	-	-	60,633	-	-	-	-	-	-	-
Debt service											
Principal	55,000	-	-	-	-	-	-	-	-	20,000	35,000
Interest and other charges	61,231	-	-	-	-	-	-	14,943	-	5,160	41,128
Capital outlay	353,425	2,007	-	-	-	-	283,805	67,613	-	-	-
Total expenditures	752,063	128,821	91,971	60,633	-	1,680	283,895	83,050	725	25,160	76,128
Excess of revenues over (under) expenditures	(445,044)	(23,348)	(46,264)	12,977	579	(1,515)	(214,541)	(71,102)	(725)	(25,065)	(76,040)
OTHER FINANCING SOURCES (USES)											
Proceeds from long-term debt, net	251,454	-	-	-	-	-	-	251,454	-	-	-
Operating transfers in	136,294	-	34,100	-	-	-	-	-	906	25,160	76,128
Operating transfers out	(10,630)	(7,100)	-	-	(579)	-	(2,045)	(906)	-	-	-
Total other financing sources (uses)	377,118	(7,100)	34,100	-	(579)	-	(2,045)	250,548	906	25,160	76,128
Net change in fund balances	(67,926)	(30,448)	(12,164)	12,977	-	(1,515)	(216,586)	179,446	181	95	88
Fund balances (deficits) at July 1, 2003	216,281	35,224	2,267	6,251	816	32,044	164,102	(45,917)	(181)	16,633	5,042
Fund balances (deficits) at June 30, 2004	\$ 148,355	\$ 4,776	\$ (9,897)	\$ 19,228	\$ 816	\$ 30,529	\$ (52,484)	\$ 133,529	\$ -	\$ 16,728	\$ 5,130

BRICKLEY DeLONG

CERTIFIED PUBLIC ACCOUNTANTS

October 4, 2004

City Council
City of Hart
Hart, Michigan



In planning and performing our audit of the financial statements of the City of Hart for the year ended June 30, 2004, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the City of Hart's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements. We have attached a summary of such reportable conditions.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe Recommendation 1 on the attached summary is a material weakness.

This report is intended for the information of the City of Hart, management, and others within the administration and is not intended to be and should not be used by anyone other than these specified parties.

Brickley DeLong, PLLC

MATERIAL WEAKNESS

Recommendation 1: Bank reconciliations should be reconciled to the general ledger on a monthly basis.

During our testing, we noted that monthly bank reconciliations were not reconciled to the general ledger in a timely manner.

Reconciliations for all bank accounts should be reconciled to the general ledger on a monthly basis. This procedure is essential to provide accurate interim financial statements.

REPORTABLE CONDITIONS

Recommendation 2: General ledger journal entry procedures should be improved.

A significant number of journal entries are posted to the general ledger by only one employee. The journal entries should be maintained in numerical order with adequate descriptions and supporting documentation. They should be reviewed and approved by an appropriate official.

Improving journal entry procedures would strengthen internal controls and help to ensure accurate financial statement reporting.

Recommendation 3: Procedures should be improved for computation of equipment usage.

During our testing, we noted errors in account distribution for equipment rental, where the hours of usage were charged to the incorrect fund. Additionally, we noted computation errors where the wrong number of hours was used to compute the monthly rent and the worksheet used to tally the rental totals did not include all cells and therefore did not report accurate totals.

The periodic verification of worksheet formulas, usage of control totals to verify proper hours input and careful input of time within funds would help to ensure the funds are not over or undercharged for equipment usage.

Recommendation 4: Check writing and approval policies and procedures should be followed.

During our testing, we noted 3 of 40 checks tested did not contain two signatures, even though policy requires two signatures. Those same 3 checks were not included in the packet that was submitted to Council for approval.

Requiring established procedures to be followed would reduce the risk of misappropriation of the City's assets.